

Financial Statements

**Ionia County Community
Mental Health**

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ionia County Community Mental Health	County Ionia
Fiscal Year End September 30, 2006	Opinion Date December 6, 2006	Date Audit Report Submitted to State February 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

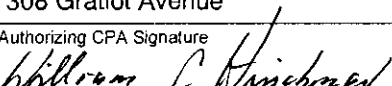
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ **NO** ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123		
Street Address 308 Gratiot Avenue		City Alma	State MI	Zip 48801
Authorizing CPA Signature 		Printed Name William C. Hirschman		License Number 1101016179

Ionia County Community Mental Health
Table of Contents
September 30, 2006

Independent Auditor's Report

Management's Discussion and Analysis I-VII

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for
Governmental Funds to Net Assets of Governmental
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds 5-6

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities 7

Statement of Net Assets – Proprietary Funds 8

Statement of Revenues, Expenses and Changes in Fund
Net Assets – Proprietary Funds 9

Statement of Cash Flows – Proprietary Funds 10

Notes to the Financial Statements 11-27

Required Supplemental Information

Budgetary Comparison Schedules 28-29

Other Supplemental Information

Individual Fund Statements

Statement of Personnel Expenditures 30

Statement of Operating Expenditures 31

Government Auditing Standards Report 32-33



INDEPENDENT AUDITOR'S REPORT

Ionia County Community Mental Health
Ionia, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ionia County Community Mental Health (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management.

Our responsibility is to express an opinion on these financial statements based on our audit.

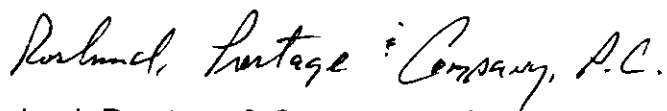
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2006, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

The management of Ionia County Community Mental Health Services (ICCMH) presents the following discussion and analysis of the financial activities during the fiscal year 2005/2006. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. ICCMH, which was created as a Mental Health Authority on September 17, 1996 by action of the Ionia County Board of Commissioners, has entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Gratiot County Community Mental Health, Manistee Benzie Community Mental Health, and Newaygo County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan.

Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with ICCMH to provide Medicaid covered services for the county of Ionia for the current fiscal year. At this time, ICCMH has approximately 7900 total Medicaid covered lives. This number has grown steadily over the last 12 months from 7400 covered lives. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Ionia County Community Mental Health also holds a Managed Mental Health Supports and Services Contract with the Michigan Department of Community Health for general funds.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements.

The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements report information using the modified accrual basis of accounting. For ICCMH, the major funds consist of the general fund and the proprietary fund.

Governmental fund financial statements identify how day-to-day community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements identify funds set aside in our Internal Service Fund for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

Summary of Net Assets

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2006 and 2005.

Summary of Net Assets		
As of September 30, 2006 and 2005		
(In dollars)		
	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	2,424,497	2,414,068
Restricted Assets	277,048	263,089
Capital Assets	<u>472,132</u>	<u>437,162</u>
Total Assets	3,173,677	3,114,319
Liabilities		
Current Liabilities	1,455,549	1,729,327
Noncurrent Liabilities – LT Debt	274,397	269,564
Noncurrent Liabilities – Comp. Absences	<u>163,706</u>	<u>167,802</u>
Total Liabilities	1,893,652	2,166,693
Net Assets		
Investment in capital assets	115,242	109,551
Restricted for capital purposes	-	-
Restricted for risk management	90,207	86,516
Unrestricted	<u>1,074,576</u>	<u>751,559</u>
Total Net Assets	1,280,025	947,626

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$969 thousand, an increase of \$284 thousand or 41%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, deferred revenue and current portion of long-term liabilities.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

Also at year-end, \$69 thousand of state general fund formula funding was unspent. Of this amount \$8.7 thousand is included in current liabilities as amounts due to the state as lapse and the remaining \$60 thousand as deferred revenue to be carried forward to next year. A Section 236 transfer was made with Newaygo CMH during the fiscal year for the amount of \$30 thousand.

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$277 thousand have increased slightly from last year from \$263 thousand, or an increase of 4%.

Assets restricted for capital purposes (funded depreciation) are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2006, the Authority fully funded its annual depreciation expense of \$54 thousand.

The remaining assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance in this account was \$90 thousand and is funded to 4.9%, as compared to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value and restated to be net of the accumulated depreciation. As of the beginning of fiscal 2006, capital assets having an original book value of \$1.08 million were recorded, net of restated accumulated depreciation of \$609 thousand, for a beginning net book value of \$472 thousand.

In fiscal 2006, \$92 thousand was expended for new automobiles. Depreciation expense on previously existing and newly acquired capital assets was \$54 thousand. The net change in capital assets was an increase of \$35 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 44% of the original book value compared to 41% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations as well as the long-term portion of notes payable used to acquire and improve buildings.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$1.0 million, an increase of \$323 thousand. Unrestricted net assets were 34% of total assets, up from 24% from the prior year. This increase is due to a number of factors including higher interest rates, pharmaceutical administration reimbursements, and Clinton-Eaton-Ingham CMH, providing our share of the additional Local Match to participate in the post authority status Medicaid draw-down program.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2006 and 2005.

Summary of Activities

As of September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenue		
Medicaid specialty supports and services	6,794,343	6,832,495
State general fund priority populations	1,730,134	1,638,746
Adult Benefit Waiver	177,065	167,494
Program service revenue	269,542	262,292
Grants and earned contracts	347,655	296,508
County appropriation	163,000	163,000
Interest income	110,228	71,065
Other local income	<u>12,644</u>	<u>9,196</u>
Total Revenue	9,604,611	9,440,796
Expense		
Personnel expense	4,400,291	4,370,712
Operating expense	4,884,975	4,914,551
Interest expense	<u>19,555</u>	<u>19,221</u>
Total Expense	9,304,821	9,304,484
Excess of Revenue over Expense	299,790	136,312
Transfer to PIHP	<u>-</u>	<u>-</u>
Change in Net Assets	299,790	136,312

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

Excess of revenue over expenses from activities for the current year was \$349 thousand or about 4% of revenue. This is an increase of \$213 thousand from the prior year net income of \$136 thousand.

Revenue for the year was \$9.6 million, an increase of \$200 thousand or 2.1% from the prior year.

Medicaid specialty supports and services revenue of \$6.6 million represents 70% of total revenue and decreased \$150 thousand. Unspent Medicaid subcontract funds of \$525 thousand are not revenue and are shown as amounts due to the PIHP.

State general fund priority population revenue (formula funding) of 1.7 million represents 18% of total revenue and increased \$91 thousand or 6% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$84 thousand of prior year general fund deferred revenue. Unspent current year funds of \$69 thousand are not included in current revenue. Of this amount \$8.7 thousand is shown as a current liability due to be lapsed to MDCH and the remaining \$60 thousand is shown as deferred revenue available for next year.

Adult Benefit Waiver revenue of \$177 thousand represents 2% of total revenue and increased \$10 thousand or 6% compared to the prior year. This funding was a new revenue source in fiscal year 2004 and was initiated at that time to take the place of the State Medical program. Any unused funds at the end of the fiscal year are treated as local funds. During fiscal year 2006, our local fund balance increased from Adult Benefit Waiver services by \$44 thousand as \$132 thousand of the funds were expensed for services.

Program service revenue of \$222 thousand includes charges for services for consumers not covered by Medicaid or state general fund revenue sources. These represent 2% of total revenue and have decreased \$40 thousand or 18% from the prior year.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 3% of total revenue and have increased \$26 thousand or 9% over the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 3% of revenue and have increased \$35 thousand or 15% from the prior year. The county appropriation was unchanged.

Total expense of \$9.2 million has decreased \$49 thousand or 1% compared to the prior year. Personnel expense is 48% of total expense and has increased \$34 thousand or 1%. Operating expense is 52% of total expense and has decreased \$83 thousand or 2%.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2006

FUTURE OUTLOOK

The State of Michigan continues to struggle with financial difficulties. Federal deficits continue to place additional pressures on Medicaid funding. The effect of these difficulties on future funding for Ionia County Community Mental Health and specialty supports and services is unknown. However, at Ionia County Community Mental Health, we have been preparing for this scenario for several years. Since FY 2002, our agency has reduced expenses by over \$500,000 through staff attrition and reduction of staff administrative positions. Consequently, the decrease has not impacted our level of services. It is probable our annual cost settlement with the Department of Community Health will be budget neutral this year and next year due to the reduction of funds as discussed above.

Management anticipates zero growth in State revenues. While the financial position of the Authority is currently healthy. Management will continue to explore alternative funding sources where appropriate, analyze expenses, and implement cost efficiencies where possible. Ionia County Community Mental Health will continue to provide to our customers the best programs for the best value.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$2,183,800	\$2,220,981
Accounts receivable, net	36,059	27,724
Due from other governmental units	115,450	90,145
Prepaid expenses	89,188	75,218
Total current assets	2,424,497	2,414,068
Noncurrent assets		
Cash and cash equivalents - restricted	277,048	263,089
Capital assets - depreciable, net	472,132	437,162
Total noncurrent assets	749,180	700,251
Total assets	3,173,677	3,114,319
Liabilities		
Current liabilities		
Accounts payable	444,115	445,471
Due to others	19,580	16,595
Deferred revenue	101,243	124,767
Accrued wages and other payroll liabilities	135,389	127,049
Due to other governmental units	672,729	957,398
Current portion of long-term liabilities	82,493	58,047
Noncurrent liabilities		
Long-term liabilities	274,397	269,564
Compensated absences	163,706	167,802
Total liabilities	1,893,652	2,166,693
Net Assets		
Invested in capital assets, net of related debt	115,242	109,551
Restricted for risk management	90,207	86,516
Unrestricted	1,074,576	751,559
Total net assets	\$1,280,025	\$947,626

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2005
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$9,304,821</u>	<u>\$7,017,028</u>	<u>\$2,477,355</u>	\$189,562	\$63,119
General revenues					
Unrestricted investment earnings				106,537	71,065
Restricted investment earnings				<u>3,691</u>	<u>2,128</u>
Total general revenues and contributions				<u>110,228</u>	<u>73,193</u>
Change in net assets				299,790	136,312
Net assets - beginning of year				947,626	768,306
Prior period adjustment				<u>32,609</u>	<u>43,008</u>
Net assets - end of year				<u>\$1,280,025</u>	<u>\$947,626</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

IONIA COUNTY COMMUNITY MENTAL HEALTH
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Assets		
Cash and investments	\$2,183,800	\$2,220,981
Accounts Receivable, Net	36,059	27,724
Due from other governmental units	115,450	90,145
Prepaid expenses	89,188	75,218
Cash and investments - restricted	186,841	176,573
Total assets	<u>\$2,611,338</u>	<u>\$2,590,641</u>
Liabilities		
Accounts payable	\$444,115	\$445,471
Due to others	19,580	16,595
Deferred revenue	101,243	124,767
Accrued wages & other payroll liabilities	135,389	127,049
Due to other governmental units	672,729	957,398
Total liabilities	<u>1,373,056</u>	<u>1,671,280</u>
Fund Balance		
Reserved for prepaid expenses	89,188	75,218
Unreserved	1,149,094	844,143
Total fund balances	<u>1,238,282</u>	<u>919,361</u>
Total Liabilities and fund balances	<u>\$2,611,338</u>	<u>\$2,590,641</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total fund balance - governmental funds	\$1,238,282
---	-------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add:	Capital assets	1,081,884
Deduct:	Accumulated depreciation	(609,752)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add:	Net assets of governmental activities accounted for in the internal service fund	90,207
------	--	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Deduct:	Loans payable	(356,890)
Deduct:	Compensated absences	(163,706)

Net assets of governmental activities	<u><u>\$1,280,025</u></u>
---------------------------------------	---------------------------

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
REVENUES		
State grants		
DCH - general fund formula and categorical	\$1,730,134	\$1,638,746
Adult benefit waiver	177,065	167,494
PAS / ARR grant	8,093	4,732
DCH grant - housing assistance	16,951	7,252
MI child	9,180	9,018
Total state grants	<u>1,941,423</u>	<u>1,827,242</u>
Federal grants		
Wraparound grant	82,640	80,750
Alzheimers	20,122	-
Friendship call line	27,917	-
Juvenile justice diversion	33,217	36,876
Substance abuse	48,059	30,612
Strong families/safe children	18,047	18,400
Bridges	28,035	30,157
PAS / ARR grant	24,279	14,197
Respite	5,524	4,313
Drop in center	5,250	4,944
Total federal grants	<u>293,090</u>	<u>220,249</u>
Contributions - local units		
County funding	163,000	163,000
Total contributions - local units	<u>163,000</u>	<u>163,000</u>
Charges for services		
Medicaid - other	112,536	51,337
Medicaid - DCH contract	6,681,808	6,832,495
Client and third party pay	222,684	169,281
Total charges for services	<u>7,017,028</u>	<u>7,053,113</u>
Interest and rents		
Interest	106,537	71,065
Total interest and rents	<u>106,537</u>	<u>71,065</u>
Other revenue		
Contributions	7,087	6,374
Earned contracts	29,521	25,865
Miscellaneous	46,858	79,335
Total other revenue	<u>83,466</u>	<u>111,574</u>
Total revenues	<u>9,604,544</u>	<u>9,446,243</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
EXPENDITURES		
Health & welfare - mental health		
Personnel costs	\$4,404,387	\$4,370,722
Operating expenditures	4,831,226	4,865,350
Capital outlay	92,343	148,907
Debt payments - principal	63,064	55,668
Debt payments - interest	19,555	19,221
Total expenditures	9,410,575	9,459,868
Excess of revenues over (under) expenditures	193,969	(13,625)
Other financing sources (uses)		
Proceeds from loans	92,343	141,349
Total other financing sources (uses)	92,343	141,349
Excess of revenues and other sources		
Over (under) expenditures and other uses	286,312	127,724
Fund balance - beginning of year	919,361	748,629
Prior period adjustment	32,609	43,008
Fund balance - end of year	<u>\$1,238,282</u>	<u>\$919,361</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$286,312
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures and the proceeds from loans to finance capital purchases as revenue. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and the loan proceeds are recorded as a liability.	
Add: Capital outlay	92,343
Deduct: Depreciation expense	(53,749)
Deduct: Loan proceeds	(92,343)
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: Principal paid on long-term debt	63,064
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sales increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of assets sold.	
Deduct: Loss on disposal of capital assets	(3,624)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: Decrease in accrual for compensated absences	4,096
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: Interest income from governmental internal service fund	3,691
Change in net assets of governmental activities	<u>\$299,790</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006 AND 2005

		Internal Service Fund	
		2006	2005
Assets			
Cash and cash equivalents		<u>\$90,207</u>	<u>\$86,516</u>
Net assets			
Restricted		<u>\$90,207</u>	<u>\$86,516</u>
Total liabilities and net assets		<u>\$90,207</u>	<u>\$86,516</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Non-operating revenue		
Interest income	\$3,691	\$2,128
Operating transfers		
Transfers out to other governmental units	-	-
Change in net assets	3,691	2,128
Net assets, beginning of year	86,516	84,388
Net assets, end of year	<u>\$90,207</u>	<u>\$86,516</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Cash flows from investing activities		
Interest revenue	<u>\$3,691</u>	<u>\$2,128</u>
Net increase (decrease) in cash and cash equivalents	3,691	2,128
Cash and cash equivalents - beginning of year	<u>86,516</u>	<u>84,388</u>
Cash and cash equivalents - end of year	<u><u>\$90,207</u></u>	<u><u>\$86,516</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ionia County Community Mental Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Ionia who meet eligibility and other criteria. As the community mental health services provider for Ionia County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Ionia County Community Mental Health Notes To The Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Ionia County Community Mental Health Notes To The Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Ionia County Community Mental Health Notes To The Financial Statements

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits, and certificates of deposit.

Receivables and Payables Between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due/to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Ionia County Community Mental Health
Notes To The Financial Statements

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5-10
Computers	5
Vehicles	4
Buildings and Improvements	10-30
Land	Not Depreciated

Ionia County Community Mental Health
Notes To The Financial Statements

Restricted Assets

Cash has been restricted for future payment of compensated absences, employee flex benefits, and for the risk reserve liability. These restricted assets are held in separate cash accounts with local financial institutions.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Ionia County Community Mental Health
Notes To The Financial Statements

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Ionia County.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan (CMHAMM) for Medicaid-qualified services rendered to residents of Ionia County. The CMHAMM serves as the Pre-Paid Inpatient Health Plan (PIHP) for the area that includes Ionia County and they contract with the MDCH to administer these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year the Authority incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

Ionia County Community Mental Health
Notes To The Financial Statements

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents are as follows:

Cash and Cash Equivalents	2006	2005
Petty Cash	\$750	\$750
Checking, Money Market, & Liquid Asset Accounts	915,255	1,007,028
Certificates Of Deposit	1,267,795	1,213,203
Cert. Of Deposit – Restricted, ISF Fund	90,207	86,516
Cert. Of Deposit – Restricted For Comp. Absences	174,961	167,802
Cash – Restricted for Employee's Flexible Benefits	11,880	8,771
Totals	\$2,460,848	\$2,484,070

Restricted Cash and Cash Equivalents

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30th. The Authority holds, in a separate bank account, funds restricted for the payment of the compensated absences as they come due.

Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract. See additional note below.

Funds have also been restricted for the payment of employee's flexible benefits.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$2,233,823 of the Authority's \$2,433,823 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits.

As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Ionia County Community Mental Health Notes To The Financial Statements

Investments

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of the end of the current year, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Authority does not have any additional policies for custodial credit risk over investments.

Ionia County Community Mental Health
Notes To The Financial Statements

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.

The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2006	2005
State of Michigan – DCH, Wraparound	\$31,622	\$25,925
State of Michigan – DCH, Juvenile Justice Diversion	8,085	36,876
State of Michigan – FIA, SF/SC	4,502	1,783
State of Michigan – DCH, Housing Assistance	910	1,300
State of Michigan – Ionia County Juvenile Court	2,083	1,042
State of Michigan – OBRA	10,120	2,435
State of Michigan – FIA, CPCP Bridges	4,230	652
Alzheimers	14,075	-
Mid-South – Substance Abuse	5,232	-
State of Michigan – DCH, FCL	9,382	-
CEI - Medicaid	8,209	4,025
Other	17,000	16,107
Total	\$115,450	\$90,145

Ionia County Community Mental Health
Notes To The Financial Statements

Prepaids

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid	2006	2005
Insurance	\$66,131	\$64,313
Dues & Conferences	6,399	7,479
Other	16,658	3,426
Total	\$89,188	\$75,218

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	\$294,099	\$92,343	(\$72,496)	\$313,946
Furniture, Fixtures & Equip.	218,117	-	-	218,117
Computers	228,081	-	-	228,081
Buildings	272,120	-	-	272,120
Land	49,620	-	-	49,620
Sub-total	1,062,037	92,343	(72,496)	1,081,884
Accumulated Depreciation	(624,875)	(53,749)	68,872	(609,752)
Totals	\$437,162	\$38,594	(\$3,624)	\$472,132

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Due To Others

Due to others represents funds held on behalf others as follows:

Held On Behalf Of:	2006	2005
Consumers	\$7,700	\$7,824
Employees – flex benefits	11,880	8,771
Total	\$19,580	\$16,595

Ionia County Community Mental Health
Notes To The Financial Statements

Deferred Revenue

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community Health's authorization as well as other revenues received in advance of the period earned as follows:

Deferred Revenue	2006	2005
County Appropriation	\$40,750	\$40,750
General Fund Carry Forward	60,493	84,017
Total	\$101,243	\$124,767

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Due To Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2006	2005
Clinton-Eaton-Ingham CMH – Medicaid Cost Settlement	\$524,618	\$801,322
State of Michigan – Cost Settlement – 9/04	-	-
State of Michigan – Cost Settlement – 9/05	-	42,213
State of Michigan – Cost Settlement – 9/06	8,788	-
Various Facilities – Inpatient / Residential	139,323	113,863
Totals	\$672,729	\$957,398

Operating Leases

Ionia County Community Mental Health has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

Ionia County Community Mental Health
Notes To The Financial Statements

Long-term Debt

Compensated Absences

The Authority's full time employees shall accrue paid time off biweekly, based on the number of years of employment. The maximum number of hours an employee may accrue is 27 days (216 hours) for employment of 0 to 6 years; and 33 days (264 hours) for employment over 6 years.

Paid time off may be accumulated to a maximum of 240 hours. Upon retirement, termination for other than just cause, or death, the employee who has completed their initial introductory period will be paid for the unused credited paid time off at their current rate of pay.

Notes Payable

- The Authority entered into three promissory notes totaling \$321,740 to finance the purchase and renovations of three separate buildings.
- The Authority entered into a promissory note totaling \$50,130 to finance the purchase of three vehicles.
- The Authority entered into a promissory note totaling \$141,349 to finance the purchase and installation of office cubicles and a small storage shed.
- The Authority entered into three promissory notes in the amounts of \$29,746, \$33,076, and \$29,521 (totaling \$92,343) to finance the purchase of six vehicles.

The terms of the promissory notes are detailed in the following chart.

Description	Date of Loan	Length of Loan	Original Balance	Monthly Payment	Interest Rate
State St. & Renovation	7/25/97	180 mo.	\$102,540	\$913.08	6.75%
Water Street	2/12/98	180 mo.	108,800	968.77	6.75%
Prairie Creek	2/12/98	180 mo.	110,400	983.01	6.75%
Vehicle Loans	6/15/04	48 mo.	50,130	1,116	3.25%
Furniture/Shed	10/28/04	84 mo.	141,349	2,162	3.53%
2006 Impalas (2)	03/32/06	48 mo.	29,521	700	6.49%
2006 Cobalt and Trailblazer	03/07/06	48 mo.	33,076	784	6.49%
2006 Impalas (2)	09/06/06	48 mo.	29,746	677	4.35%

Ionia County Community Mental Health
Notes To The Financial Statements

The changes in the long-term debt are as follows:

Description of Debt	Beg. Bal. 10/01/05	Additions	Reductions	End. Bal. 9/30/06
State Street And Renovation	\$48,853	-	\$7,857	\$40,996
Water Street	70,766	-	6,974	63,792
Prairie Creek	49,655	-	7,094	42,561
Vehicle Loans	35,148	-	12,425	22,723
Furniture/Shed	123,189	-	21,923	101,266
2006 Impalas (2)	-	\$29,521	-	29,521
2006 Cobalt and Trailblazer	-	33,076	3,682	29,394
2006 Impalas (2)	-	29,746	3,109	26,637
Totals	\$327,611	\$92,343	\$63,064	\$356,890

The annual payment of principle and interest for the next five years (including interest of \$45,038) is as follows:

Year Ended September 30th,	Principle and Interest Due
2007	\$99,650
2008	96,302
2009	86,256
2010	76,790
2011	21,563
2012 – 2013	21,367

Prior Period Adjustment

Prior period adjustments represents the adjustment to fund balance and net assets due to the following:

Adjustment	2006	2005
Established pension reserve	-	\$16,818
Write-off of old uncollectible receivable	-	(5,076)
Adjust liability for community inpatient	-	30,400
Remove overstated accounts payables	\$32,295	-
Other	314	867
Total Increase (Decrease) To Fund Balance	\$32,609	\$43,009

Ionia County Community Mental Health
Notes To The Financial Statements

Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

NOTE 4. OTHER INFORMATION

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Money Purchase Pension Plan

On January 1, 2002 the Authority established the Ionia County CMH Money Purchase Pension Plan. The employees are eligible after completing one year of service and have attained the age of 21. Employees of the Authority on January 1, 2002 are eligible immediately. Each year the Authority will contribute 6% of each employee's compensation to the plan with a maximum of \$40,000 or 100% of annual compensation. Employees will be fully vested after 6 years of service.

Additional information regarding this plan can be obtained by writing the plan administrator at: Ionia County Community Mental Health Board, 375 Apple Tree Drive, Ionia, Michigan 48846.

Deferred Compensation Plan

Employees of the Authority may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State And Local Governments). The deferred compensation plan is available to all full time employees. Under the plan, employees may elect to defer a portion of their salaries and defer paying income taxes on the deferred portion until the withdrawal date.

Ionia County Community Mental Health Notes To The Financial Statements

Under the terms of an Internal Revenue Code Section 457 Plan, all deferred compensation and income attributable to the investment of the deferred compensation, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors.

The Authority entered into an administrative agreement with NACoServices, Inc., a subsidiary of the National Association of Counties, and Public Employees Benefit Services Corporation, hereinafter referred to as Nationwide, to endorse and sponsor the plan. Nationwide has been selected to fulfill the responsibility for all administrative requirements necessary for the successful operation of the program.

Additional information regarding this plan can be obtained by writing the plan administrator at: Ionia County Community Mental Health Board, 375 Apple Tree Drive, Ionia, Michigan 48846.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$5,000,000 for liability, \$1,500,000 for vehicle physical damage, and approximately \$1,900,000 for buildings and personal property. The contribution made by the Authority to the MMRMA was \$31,679 for the period July 1, 2005 to June 30, 2006.

Managed Care Risk Contract

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

Contingency

During the year ended September 30, 2003 the Department of Community Health (DCH) completed an audit of the Authority for fiscal years ending September 30, 1999 and 2000.

As a result of that audit, DCH has issued their *Preliminary Analysis* and is requesting \$259,212 be returned to them from the Authority.

As of the date of this report, the Authority has been progressing through various stages of dispute resolution, administrative appeal, judicial review, and negotiations with DCH, as applicable, to resolve this matter.

The resolutions of these audit issues could have a material impact on the financial statements.

These financial statements do not reflect any contingent liabilities relating to these audit findings.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
REVENUES				
State grants				
DCH - general fund formula and categorical	\$1,777,304	\$1,718,750	\$1,730,134	\$11,384
Adult benefit waiver	192,000	170,000	177,065	7,065
PAS / ARR grant	3,750	7,500	8,093	593
DCH grant - housing assistance	5,000	15,500	16,951	1,451
MI child	8,000	8,500	9,180	680
Total state grants	<u>1,986,054</u>	<u>1,920,250</u>	<u>1,941,423</u>	<u>21,173</u>
Federal grants				
Wraparound grant	87,461	81,500	82,640	1,140
Alzheimers	-	-	20,122	20,122
Friendship call line	31,000	27,000	27,917	917
Latino promoter	25,500	-	-	-
Juvenile justice diversion	45,000	32,500	33,217	717
Substance abuse	29,000	40,000	48,059	8,059
Strong families/safe children	17,400	18,000	18,047	47
Bridges	33,000	27,500	28,035	535
PAS / ARR grant	11,250	24,000	24,279	279
Respite	5,000	5,000	5,524	524
Drop in center	5,250	5,250	5,250	-
Total federal grants	<u>289,861</u>	<u>260,750</u>	<u>293,090</u>	<u>32,340</u>
Contributions - local units				
County funding	163,000	163,000	163,000	-
Charges for services				
Medicaid - other	70,000	110,000	112,536	2,536
Medicaid - DCH contract	7,060,774	6,532,500	6,681,808	149,308
Client and third party pay	174,000	220,000	222,684	2,684
Total charges for services	<u>7,304,774</u>	<u>6,862,500</u>	<u>7,017,028</u>	<u>154,528</u>
Interest and rents				
Interest	65,500	105,000	106,537	1,537
Other revenue				
Contributions	4,500	6,500	7,087	587
Earned contracts	28,500	55,000	29,521	(25,479)
Miscellaneous	12,000	34,000	46,858	12,858
Total other revenue	<u>45,000</u>	<u>95,500</u>	<u>83,466</u>	<u>(12,034)</u>
Total revenues	<u>9,854,189</u>	<u>9,407,000</u>	<u>9,604,544</u>	<u>197,544</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
EXPENDITURES				
Health & welfare - mental health	\$9,828,189	\$9,385,000	\$9,235,613	\$149,387
Capital outlay	-	-	92,343	(92,343)
Debt service	26,000	22,000	82,619	(60,619)
Total expenditures	9,854,189	9,407,000	9,410,575	(3,575)
Excess of revenues over (under) expenditures	-	-	193,969	193,969
Other financing sources (uses)				
Proceeds from loans	-	-	92,343	92,343
Total other financing sources (uses)	-	-	92,343	92,343
Excess of revenues and other sources Over (under) expenditures and other uses	-	-	286,312	286,312
Fund balance - beginning of year	861,111	861,111	919,361	58,250
Prior period adjustment	-	-	32,609	32,609
Fund balance - end of year	\$861,111	\$861,111	\$1,238,282	\$377,171

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

		General Fund	
		2006	2005
Personnel costs			
Salaries and wages		\$3,365,974	\$3,332,793
Fringe benefits		<u>1,038,413</u>	<u>1,037,929</u>
Total personnel costs		<u>\$4,404,387</u>	<u>\$4,370,722</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Operating Expenditures		
Advertising	\$7,311	\$5,834
Board per diem	10,280	12,740
Books and publications	3,826	9,398
Contracted services	2,087,031	2,010,554
Consumer per diem	1,970	3,830
Capital outlay - under \$5,000	59,455	102,333
Dues	8,896	8,430
Electricity	22,503	21,754
Family flex funds	1,751	2,593
Heat	9,988	17,266
Housing assistance	17,094	9,182
Insurance and bonds	41,260	66,879
Inpatient	635,151	674,526
Meeting expense	13,262	11,173
Miscellaneous	2,572	2,828
Postage	10,743	10,351
Prescriptions	1,046	1,267
Property taxes	16,977	18,280
Professional fees	33,672	51,502
Rent - building	167,216	165,207
Rent - equipment	21,175	20,429
Repairs & maintenance	62,387	68,303
Residential per diem	1,131,135	1,162,016
Respite per diem	18,240	16,350
Supplies	152,961	113,193
Staff medical	630	671
Telephone	63,270	86,348
Training and education	71,055	51,304
Transportation	34,724	31,897
Travel	76,524	64,875
Vehicle expenses	43,223	39,826
Water & sewer	3,898	4,211
Total operating expenditures	\$4,831,226	\$4,865,350

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Ionia County Community Mental Health
Ionia, Michigan

We have audited the financial statements of the governmental activities and each major fund of Ionia County Community Mental Health (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated December 6, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2006



MANAGEMENT LETTER

Board of Directors
Ionia County Community Mental Health
Ionia, Michigan

In planning and performing our audit of the financial statements for Ionia County Community Mental Health for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 6, 2006, on the financial statements of Ionia County Community Mental Health.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2006

Ionia County Community Mental Health
Management Letter

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that all of the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Charge Card Policy

Governmental units in Michigan are required to adopt, by Board resolution, a written policy regarding charge card use that is in compliance with Public Act 266 of 1995. Ionia County Community Mental Health has a charge card policy in place that meets some, but not all, of the requirements.

We have provided management a copy of Letter No. 2-96 from the Department of Treasury that outlines the requirements of Public Act 266 of 1995. We recommend that the charge card policy be reviewed and amended, as necessary, to include all the requirements as noted in the letter.

Bank Reconciliations

During our review of bank accounts we found that the individuals responsible for preparation and review of the bank reconciliations are not signing (or initialing) and dating the reconciliations when completed.

We recommend that all bank reconciliations be signed (or initialed) and dated when completed and again when reviewed. This will help identify the responsible persons and document both the segregation of duties and level of oversight.